



OFFICE OF AUDITOR OF STATE

STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

David A. Vaudt, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE January 18, 2011

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the Iowa Lottery Authority for the year ended June 30, 2010. The Iowa Lottery Authority oversees the marketing of lottery games and performs the administrative duties necessary to maximize the amount of money available for transfer to the State General Fund. Total operating revenue for the year ended June 30, 2010 increased 5.29% over the same period one year ago.

Comparative operating data is as follows:

	Year Ended June 30, 2010	Year Ended June 30, 2009	% Increase (Decrease)
Revenues:			
Instant-scratch ticket	\$ 143,759,258	\$ 136,268,555	5.50%
Pick 3	6,531,001	6,534,765	(.06%)
Pick 4	2,662,191	2,555,237	4.19%
Powerball	59,190,012	58,220,203	1.67%
Mega Millions	5,544,128	-	100.00%
Hot Lotto	13,653,746	14,329,610	(4.72%)
Raffle	789,200	-	100.00%
\$100,000 Cash Game	3,908,785	4,113,307	(4.97%)
Pull-tab	20,217,316	21,315,424	(5.15%)
Other	26,122	69,129	(62.21%)
Total operating revenue	256,281,759	243,406,230	5.29%
Prize expense	150,453,787	138,425,341	8.69%
Other expense	48,451,865	46,053,825	5.21%
Transfers to other funds	57,907,066	60,553,306	(4.37%)

An analysis of prizes awarded for the year ended June 30, 2010 is as follows:

Scratch ticket prizes	=	64% of Instant-scratch ticket sales
Pick 3 prizes	=	61% of Pick 3 sales
Pick 4 prizes	=	58% of Pick 4 sales
Powerball prizes	=	48% of Powerball sales
Mega Millions prizes	=	52% of Mega Millions sales
Hot Lotto prizes	=	48% of Hot Lotto sales
Raffle	=	50% of Raffle sales
\$100,000 Cash Game prizes	=	51% of \$100,000 Cash Game sales
Pull-tab prizes	=	63% of Pull-tab sales

The Iowa Lottery Authority spent \$7,535,084 on advertising production and media purchases for the year ended June 30, 2010, representing 2.9% of revenue. Iowa law allows the Iowa Lottery Authority to spend up to 4% of revenue for the marketing of lottery games.

A copy of the audit report is available for review at the Iowa Lottery Authority, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1160-6270-B000.pdf>.

#

IOWA LOTTERY AUTHORITY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2010

Table of Contents

	<u>Page</u>
Officials	3
Independent Auditor's Report	5-6
Management's Discussion and Analysis	7-10
Basic Financial Statements:	<u>Exhibit</u>
Statement of Net Assets	A 12
Statement of Revenues, Expenses and Changes in Net Assets	B 13
Statement of Cash Flows	C 14
Notes to Financial Statements	15-25
Supplementary Information:	<u>Schedule</u>
Other Operating Expenses – Year ended June 30, 2010	1 27
Revenues, Expenses and Changes in Net Assets –	
Years ended June 30, 2010 and 2009	2 28
Analysis of Net Assets	3 29
Revenue by Game - For the Last Six Years	4 30
Analysis of Prize Payout – For the Last Six Years	5 31
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	33-34
Staff	35

Iowa Lottery Authority

Officials

Governor

Honorable Chester J. Culver
Richard C. Oshlo, Jr.
Glen P. Dickinson

Governor
Director, Department of Management
Director, Legislative Services Agency

Iowa Lottery Authority Board of Directors

Michael Klappholz
Thomas M. Rial
Elaine Baxter
Mary Junge
Brad P. Schroeder

Chairperson
Vice Chairperson
Member
Member
Member

Ex-Officio Member

Honorable Michael L. Fitzgerald

Treasurer of State

Iowa Lottery Authority

Terry Rich
Brenda Loy

Chief Executive Officer
Vice President of Finance and Chief Financial
Officer

Iowa Lottery Authority



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report

To the Board Members of the
Iowa Lottery Authority:

We have audited the accompanying financial statements of the Iowa Lottery Authority, a component unit of the State of Iowa, as of and for the year ended June 30, 2010, which collectively comprise the Iowa Lottery Authority's basic financial statements listed in the table of contents. These financial statements are the responsibility of the Iowa Lottery Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

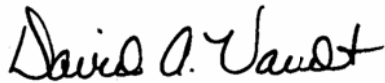
As discussed in Note 1, the financial statements of the Iowa Lottery Authority are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the financial reporting entity of the State of Iowa attributable to the transactions of the Iowa Lottery Authority. They do not purport to, and do not, present fairly the financial position of the State of Iowa as of June 30, 2010, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Iowa Lottery Authority at June 30, 2010, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

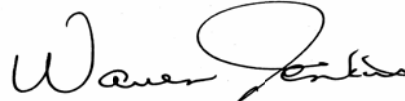
In accordance with Government Auditing Standards, we have also issued our report dated December 21, 2010 on our consideration of the Iowa Lottery Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 7 through 10 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Iowa Lottery Authority's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the five years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 21, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the Iowa Lottery Authority (Lottery) provides this Management's Discussion and Analysis of the Lottery's annual financial statements. This narrative overview and analysis of the financial activities of the Lottery is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the Lottery's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Here are some key financial highlights from fiscal year 2010:

- Lottery sales totaled \$256.3 million in fiscal year 2010, an increase of 5.3 percent over prior year sales of \$243.3 million. Fiscal year 2010 sales generated the highest revenues from the sale of core lottery products (lotto games, instant-scratch games, and pull-tab games) in Lottery history.
- The Lottery raised \$57.9 million in proceeds for state programs in fiscal year 2010 compared to \$60.6 million the year before, a decrease of 4.4 percent. Two major expense categories affected the proceeds in the fiscal year: (1) prize payouts, which are cyclical in nature and vary over time, were at the highest level in Lottery history, reaching \$150.5 million in fiscal year 2010, an increase of 8.7 percent over the prior year, and (2) the Lottery accrued \$1.5 million in fiscal year 2010 for the State Employee Retirement Incentive Program (SERIP). The SERIP program was approved during the 2010 legislative session.
- Mega Millions, a premier big-jackpot game similar to Powerball, was added to the line-up of lotto games sold in Iowa beginning January 31, 2010. With only five months of sales in fiscal year 2010, the Mega Millions game generated \$5.5 million in sales revenue.
- Since the Lottery's inception in 1985, its players have won more than \$2.5 billion in prizes while the Lottery has raised more than \$1.2 billion for state programs.

USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the Lottery's basic financial statements. The Lottery's basic financial statements consist of a series of financial statements. The Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows (on pages 12 through 14) provide information about the activities of the Lottery as a whole and present a longer-term view of the Lottery's finances. These basic financial statements also include the Notes to Financial Statements which explain some of the information in the statements and provide more detail. Supplementary information is in schedule form and begins on page 27.

REPORTING THE IOWA LOTTERY AS A WHOLE

One of the most important questions asked about the Lottery's finances is, "Is the Lottery as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Lottery as a whole and its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The Lottery's financial statements include the following statements.

The Statement of Net Assets presents all of the Lottery's assets and liabilities, with the difference between the two reported as "net assets". Per Section 99G.9A of the Code of Iowa, net proceeds from two instant-scratch and two pull-tab games will be transferred on a quarterly basis to the Veterans Trust Fund. In addition, Section 99G.2 of the Code of Iowa requires all Lottery revenue remaining after expenses be transferred on a quarterly basis to the State General Fund. However, the Lottery may retain an amount sufficient to cover anticipated administrative expenses for a period of 21 (twenty-one) days. Unrestricted net assets are calculated as the sum of cash retained for vehicle purchases, ticket inventories and the net book value of capital assets, less related bonds payable.

The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the Lottery's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the event or change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal years. Both ticket sales and related proceeds transfers to the state serve as useful indicators of the Lottery's future ability to provide a steady, reliable stream of revenue to the state.

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the fiscal year.

The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements. The Notes to Financial Statements begin on page 15.

The Supplementary Information begins on page 27 and provides detailed information about other operating expenses by object. Schedule 2 shows revenues and expenses by individual Lottery games. Schedule 3 provides an analysis of net assets. In addition, other financial data in this section compares revenues and prize payouts over the past six years by game.

FINANCIAL ANALYSIS

The Lottery's assets totaled \$42.3 million at the end of 2010 compared to \$44.7 million at the end of the previous year, a decrease of \$2.4 million. The decrease of \$2.4 million in assets was due to: (a) an overall decrease of \$1.5 million in investment in prize annuities for payments made to 36 annuitants, 8 of which were final payments, and (b) a decrease of \$0.9 million in capital assets, primarily due to the rise in the accumulated depreciation for the instant-scratch and pull-tab ticket vending machines originally purchased during fiscal year 2005.

Current liabilities decreased \$2.4 million during fiscal year 2010, primarily due to a decrease in the amount to be transferred to the state for the 4th quarter. Long-term accounts payable and accruals increased \$1.2 million in fiscal year 2010 due to the accrual of expenses related to the State Employee Retirement Incentive Program (SERIP) which was approved during the 2010 legislative session.

Net assets invested in capital assets decreased \$0.7 million from fiscal year 2009. Unrestricted net assets represent assets used to meet the Lottery's ongoing obligations to vendors and creditors. Unrestricted net assets increased \$0.5 million from the previous fiscal year.

	June 30,	
	2010	2009
Net Assets:		
Current assets	\$ 25,866,253	26,606,548
Prize reserve	4,358,760	4,421,853
Investment in prize annuities	8,646,689	9,434,092
Capital assets, net	3,435,075	4,286,169
Total assets	\$ 42,306,777	44,748,662
Current liabilities	\$ 21,849,028	24,217,039
Prize reserve	4,358,760	4,421,853
Long-term accounts payable and accruals	1,207,525	52,980
Long-term annuity prizes payable	8,646,689	9,434,092
Long-term bonds payable	1,200,000	1,300,000
Other long-term liabilities	842,836	909,055
Total liabilities	\$ 38,104,838	40,335,019
Net assets:		
Invested in capital assets, net of related debt	\$ 2,135,075	2,886,169
Unrestricted	2,066,864	1,527,474
Total net assets	\$ 4,201,939	4,413,643

The next schedule helps to highlight the activity for fiscal year 2010 as compared to fiscal year 2009.

	Year ended June 30,	
	2010	2009
Changes in Net Assets:		
Operating revenues:		
Ticket sales	\$ 256,255,637	243,337,101
Application fees	3,975	3,680
Other	22,147	65,449
Total operating revenues	256,281,759	243,406,230
Operating expenses:		
Prizes	150,453,787	138,425,341
Other operating expenses	48,451,865	46,053,825
Total operating expenses	198,905,652	184,479,166
Operating income	57,376,107	58,927,064
Non-operating revenues (expenses):		
Interest income	364,957	421,090
Interest expense	(45,702)	(48,986)
Net non-operating revenues	319,255	372,104
Income before transfers	57,695,362	59,299,168
Transfers to other funds:		
State General Fund	55,245,512	56,550,792
Veterans Trust Fund	2,661,554	2,783,377
Iowa Department of Public Health- Gambling Treatment Fund	-	1,219,137
Total transfers to other funds	57,907,066	60,553,306
Changes in net assets	(211,704)	(1,254,138)
Net assets beginning of year	4,413,643	5,667,781
Net assets end of year	\$ 4,201,939	4,413,643

Lottery sales for fiscal year 2010 were up 5.3 percent, reaching \$256.3 million for traditional lottery products, compared to \$243.3 million for fiscal year 2009. Of the three core lottery product types (lotto, instant-scratch and pull-tab), lotto game sales grew the most, increasing 7.6 percent compared to the prior year. Sales of instant-scratch games increased 5.5 percent while pull-tab game sales decreased 5.2 percent. The increase in lotto game sales is due primarily to the introduction of Mega Millions, a premier big-jackpot game similar to Powerball. Iowa ticket sales for Mega Millions began January 31, 2010 and generated \$5.5 million in revenue during fiscal year 2010.

The Lottery's operating expenses were up 7.8 percent in the current fiscal year. Prize expense is the largest operating expense and accounts for 58.7 percent of sales. Overall, prize expense increased 8.7 percent in fiscal year 2010 due to increased sales and higher prize payouts. The next largest operating expense is retailer compensation expense, which accounts for 6.3 percent of all sales. Retailers earned commissions on sales of all Lottery products during fiscal year 2010. In addition, the Lottery awards incentive compensation to retailers which increase their sales from a base level determined by the Lottery, as well as bonus payments to retailers which sell jackpot-winning tickets in Powerball, Mega Millions and Hot Lotto and tickets winning prizes of at least \$100,000 in all its lotto games.

Overall, the Lottery's proceeds for state programs decreased 4.4 percent in fiscal year 2010, totaling \$57.9 million compared to \$60.6 million a year earlier. Transfers to the State General Fund for fiscal year 2010 were \$55.2 million, a decrease from the previous year's total of \$56.6 million. Veterans Trust Fund transfers totaled \$2.7 million in the current fiscal year, a decrease of \$0.1 million from fiscal year 2009. Also, House File 811 eliminated Lottery proceeds to the Iowa Gambling Treatment Fund as of June 30, 2009.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Lottery's investment in capital assets as of June 30, 2010 was \$10.6 million, net of accumulated depreciation of \$7.2 million, leaving a book value of \$3.4 million. Additional information about the Lottery's capital assets is presented in note 5 to the financial statements.

At June 30, 2010, the Lottery had \$1.3 million in revenue bonds outstanding. Principal and interest paid on the revenue bonds in the current fiscal year totaled \$100,000 and \$45,975, respectively. More detailed information about the Lottery's revenue bonds is presented in note 6 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Lottery's management considered many factors when establishing the fiscal year 2011 budget. In particular, the Lottery took into account predictions of continued U.S. economic difficulties and conservatively projected just 1.9 percent growth in lottery sales from fiscal year 2010 to fiscal year 2011. The Lottery remains committed to meeting the budgeted proceeds transfers for state programs.

CONTACTING THE IOWA LOTTERY'S FINANCIAL MANAGEMENT

This financial report is designed to present users with a general overview of the Lottery's finances and demonstrate the Lottery's accountability for the funds generated. If you have questions about the report or need additional financial information, please contact the Finance Department, Iowa Lottery Headquarters, 2323 Grand Ave., Des Moines, Iowa 50312-5307.

Basic Financial Statements

Iowa Lottery Authority

Statement of Net Assets

June 30, 2010

Assets	
Current assets:	
Cash	\$ 17,941,276
Restricted assets - cash	486,083
Prepaid expense	25,829
Interest receivable	19,674
Accounts receivable, net	3,703,134
Ticket inventories	1,594,072
Investment in prize annuities	2,096,185
Total current assets	<u>25,866,253</u>
Noncurrent assets:	
Prize reserve	4,358,760
Investment in prize annuities	8,646,689
Capital assets, net	3,435,075
Total noncurrent assets	<u>16,440,524</u>
Total assets	<u>42,306,777</u>
Liabilities	
Current liabilities:	
Lotto prizes payable	2,295,124
Annuity prizes payable	2,096,185
Accounts payable and accruals	1,545,329
Due to:	
State General Fund	14,126,870
Other state agencies	776,854
Interest payable	3,558
Bonds payable	100,000
Deferred revenue	166,072
Salary and benefits payable	101,918
Compensated absences	637,118
Total current liabilities	<u>21,849,028</u>
Long-term liabilities:	
Accounts payable and accruals	1,207,525
Prize reserve	4,358,760
Bonds payable	1,200,000
Compensated absences and OPEB	842,836
Annuity prizes payable	8,646,689
Total long-term liabilities	<u>16,255,810</u>
Total liabilities	<u>38,104,838</u>
Net Assets	
Invested in capital assets, net of related debt	2,135,075
Unrestricted	2,066,864
Total net assets	<u>\$ 4,201,939</u>

See notes to financial statements.

Iowa Lottery Authority
Statement of Revenues, Expenses and Changes in Net Assets
Year ended June 30, 2010

Operating revenues:	
Instant-scratch ticket sales	\$ 143,759,258
Pick 3 sales	6,531,001
Pick 4 sales	2,662,191
Powerball sales	59,190,012
Mega Millions sales	5,544,128
Hot Lotto sales	13,653,746
Raffle sales	789,200
\$100,000 Cash Game sales	3,908,785
Pull-tab sales	20,217,316
Application fees	3,975
Other	22,147
Total operating revenues	<u>256,281,759</u>
Operating expenses:	
Prizes:	
Scratch ticket	91,479,848
Pick 3	3,958,003
Pick 4	1,544,018
Powerball	28,558,287
Mega Millions	2,879,811
Hot Lotto	6,610,476
Raffle	392,876
\$100,000 Cash Game	2,005,333
Pull-tab	12,702,718
Promotional	322,417
Total prizes	<u>150,453,787</u>
Retailer compensation	16,109,748
Advertising production and media purchases	7,535,084
Retailer lottery system/terminal communications	8,612,934
Instant/pull-tab ticket expense and machine maintenance	3,192,775
Terminal equipment/ticket dispensers	87,738
Other operating expenses	12,913,586
Total operating expenses	<u>198,905,652</u>
Operating income	<u>57,376,107</u>
Non-operating revenues (expenses):	
Interest income	364,957
Interest expense	(45,702)
Net non-operating revenues	<u>319,255</u>
Income before transfers	<u>57,695,362</u>
Transfers to other funds:	
State General Fund	55,245,512
Veterans Trust Fund	2,661,554
Total transfers to other funds	<u>57,907,066</u>
Change in net assets	(211,704)
Net assets beginning of year	4,413,643
Net assets end of year	<u>\$ 4,201,939</u>

See notes to financial statements.

Iowa Lottery Authority
Statement of Cash Flows
Year ended June 30, 2010

Cash flows from operating activities:	
Cash received from customers	\$ 255,588,568
Cash paid for prizes	(153,358,453)
Cash paid to retailers	(16,109,748)
Cash paid to suppliers for goods and services	(21,828,224)
Cash paid to employees for services	(8,817,839)
Other operating revenues	23,497
Net cash provided by operating activities	<u>55,497,801</u>
Cash flows from non-capital financing activities:	
Operating transfers	<u>(59,361,937)</u>
Cash flows from capital and related financing activities:	
Principal paid on capital debt	(100,000)
Interest paid on capital debt	(45,975)
Acquisition of capital assets	(43,496)
Proceeds from sale of capital assets	32,252
Net cash used for capital and related financing activities	<u>(157,219)</u>
Cash flows from investing activities:	
Interest income	379,080
Annuity payments received	2,855,000
Net cash provided by investing activities	<u>3,234,080</u>
Net decrease in cash	(787,275)
Cash beginning of year	19,214,634
Cash end of year	<u><u>\$ 18,427,359</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ 57,376,107</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	\$ 864,963
Gain on sale of capital assets	(2,625)
Change in assets and liabilities:	
Decrease in prepaid expense	47,088
Increase in accounts receivable	(409,582)
Increase in ticket inventories	(398,981)
Increase in accounts payable and accruals	1,285,271
Decrease in prizes payable	(2,758)
Increase in due to other state agencies	28,115
Decrease in deferred revenue	(242,162)
Decrease in compensated absences	(166,170)
Increase in salary and benefits payable	13,535
Decrease in prize annuities	(2,895,000)
Total adjustments	<u>(1,878,306)</u>
Net cash provided by operating activities	<u><u>\$ 55,497,801</u></u>

See notes to financial statements.

Iowa Lottery Authority
Notes to Financial Statements

June 30, 2010

(1) Summary of Significant Accounting Policies

The Iowa Lottery Authority was created by the 2003 Iowa Legislature as the successor to the Lottery Division of the Iowa Department of Revenue and Finance.

The Iowa Lottery Authority, a component unit of the State of Iowa, is a public instrumentality of the State of Iowa with comprehensive and extensive powers to operate a state lottery. The Iowa Lottery Authority has the responsibility to operate and manage lottery games in a manner to provide continuing entertainment to the public, maximize revenues and transfer the net proceeds to the General Fund of the State of Iowa and ensure the lottery is operated with integrity and dignity and free from political influence. The Iowa Lottery Authority oversees the marketing of lottery games and performs the administrative procedures necessary to ensure the most efficient and effective operation possible.

The head of the Iowa Lottery Authority is a Chief Executive Officer appointed by the Governor. The Governor also appoints the Iowa Lottery Authority Board, consisting of five members.

The Board and Chief Executive Officer have joint responsibility for entering into major contracts, procuring the printing of instant-scratch and pull-tab tickets and for the purchase or lease of equipment or services essential to the operation of a lottery game.

The Board must promulgate rules regarding the following:

- (a) Types, prize structure and price of lottery games.
- (b) Retailer licensing requirements, fees, incentives, locations and compensation.
- (c) Method of selecting winning tickets or shares, manner of prize payment, method of ticket validation, preliminary drawings and jackpot events, ticket printing and purchasing.

The organizational structure of the Iowa Lottery Authority consists of five sections: Security, Finance, Operations, Marketing and Sales.

The financial statements of the Iowa Lottery Authority have been prepared in conformity with U.S. generally accepted accounting principles as applied to governmental units. The more significant of the Iowa Lottery Authority's accounting policies are described below.

A. Reporting Entity

For financial reporting purposes, the Iowa Lottery Authority has included all funds. The Iowa Lottery Authority has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Iowa Lottery Authority are such that exclusion would cause the Iowa Lottery Authority's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the

Iowa Lottery Authority to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Iowa Lottery Authority. The Iowa Lottery Authority has no component units which meet the Governmental Accounting Standards Board criteria.

B. Fund Accounting

The Iowa Lottery Authority is reported for accounting purposes as an Enterprise Fund. The operations of the fund are accounted for with self-balancing accounts which comprise its assets, liabilities, net assets, revenues and expenses. Enterprise Funds are used to report activities for which fees are charged to external users for goods or services.

C. Measurement Focus

Enterprise Funds are accounted for on a cost of services or “capital maintenance” measurement focus. This means all assets and liabilities, whether current or non-current, associated with their activity are included in the statement of net assets, with the difference reported as net assets. Enterprise Fund operating statements present increases (revenues) and decreases (expenses) in net total assets.

In reporting the financial activity of its Enterprise Fund, the Iowa Lottery Authority applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Enterprise Fund is accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

The Iowa Lottery Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an Enterprise Fund’s principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

E. Budgets and Budgetary Accounting

Budgetary control is exercised over the Iowa Lottery Authority by the Board and Chief Executive Officer through the budgetary process prescribed in Chapter 99G of the Iowa Code.

F. Revenue Recognition

Sales of instant-scratch, pull-tab and lotto tickets are made to the public through licensed retail sales agents. Instant-scratch ticket sales are recognized when the retailer settles a pack of tickets. Revenues for pull-tab games are recognized upon the sale of tickets to the retail sales agents.

Revenues for lotto games are recognized as the drawings are held. Deferred revenue represents lotto tickets sold for future prize drawings.

G. Assets, Liabilities and Net Assets

The following accounting policies are followed in preparing the basic financial statements:

Cash, Pooled Investments and Cash Equivalents

Generally, all cash is held on deposit with the Treasurer of State and is invested by that office. Interest on funds held by the State Treasurer is credited to the Iowa Lottery Authority as received.

The Iowa Lottery Authority also earned interest on the prize reserve maintained by the Multi-State Lottery Association (MUSL).

Restricted Assets - Cash

The Iowa Lottery Authority retains cash for the purpose of purchasing replacement vehicles. Also included are annuity payments received by the Iowa Lottery Authority during the fiscal year which are not owed to jackpot winners until the next fiscal year.

Investments

Investments are reported at fair value. Insurance annuities are valued on the basis of future installment payments and are discounted using established annuity contract interest rates.

Ticket Inventories

Inventories consist of instant-scratch tickets held by retailers which have not settled, instant-scratch and pull-tab tickets held by the Lottery's sales representatives and instant-scratch and pull-tab tickets stored in the main or regional warehouses for games in progress or new games. Inventories are carried at cost using the specific identification method. Tickets are charged to instant/pull-tab ticket expense and machine maintenance when sold or voided. Unsold tickets are expensed upon the end or cancellation of a lottery game.

Certain instant-scratch games use the shared risk approach and carry no inventory on the financial statements. For these games, the tickets are not billed by the supplier until the tickets are sold, at which time the Iowa Lottery Authority records the related ticket expense.

Prize Reserve

The Iowa Lottery Authority makes weekly payments to the Multi-State Lottery Association. Such payments are for the purpose of funding the jackpot prize and funding an errors and omissions reserve.

Capital Assets

Capital assets, which include buildings, vehicles and equipment, are defined by the Iowa Lottery Authority as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years and assets purchased through special financing arrangements. Such assets are recorded at historical cost.

The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized.

Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Buildings	39
Equipment	5-10
Vehicles	2-4

Prize Liabilities

The prize liabilities for the \$100,000 Cash Game, the Pick 3 Game and the Pick 4 Game are determined by actual matches and are recognized daily after the drawings are held. The prize liabilities for Powerball, Mega Millions and Hot Lotto are determined and recognized twice a week after the jackpot drawings are held. The prize liability for Raffle is recognized after the drawing is held. Prizes for Pick 3, Pick 4, Raffle and the \$100,000 Cash Game may be claimed up to 90 days after the drawings are held. Prizes for Powerball, Mega Millions and Hot Lotto may be claimed up to one year after the drawings are held.

Compensated Absences and Other Postemployment Benefits (OPEB)

Employees accumulate a limited amount of earned but unused vacation and sick leave for subsequent use, for payment of the employer portion of insurance premiums upon retirement or for payment upon termination, death or retirement. The liabilities recorded for compensated absences are based on current rates of pay and current insurance rates.

The State of Iowa provides access to postretirement medical benefits to all retirees as required by Chapter 509A.13 of the Code of Iowa. Although the retirees generally must pay 100% of the premium rate, GASB Statement No. 45 requires employers recognize the implicit rate subsidy in postretirement medical plans provided by governmental employers.

(2) Deposits and Investments

The Iowa Lottery Authority's deposits with the office of the Treasurer of State throughout the period and at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa.

The Iowa Lottery Authority held investments totaling \$10,742,874 for the purpose of paying installment prizes. The Iowa Lottery Authority may invest in financial instruments carrying the full faith and credit of the U.S. government or insurance annuities purchased from companies with an A.M. Best A+ rating and a stated surplus of at least \$100,000,000 in accordance with Section 99G.9 of the Code of Iowa.

The Iowa Lottery Authority is responsible for investing in insurance annuities. The Iowa Lottery Authority had investments in insurance annuities with a fair value of \$458,942 that are not subject to credit risk categorization.

The Treasurer of State is responsible for investing the Iowa Lottery Authority's funds, except for insurance annuities. The Iowa Lottery Authority's investments in U.S. government securities with a fair value of \$9,725,780 at June 30, 2010 are all insured and registered investments held by the State of Iowa or held by the State of Iowa's agent in the name of the State. The Iowa Lottery Authority also had investments of \$558,152 at June 30, 2010 in pooled funds and mutual funds.

At June 30, 2010, the Iowa Lottery Authority had the following fixed income investments:

Investment Type	Fair Value
U.S. Government Treasuries, Notes and Bonds	\$ 4,838,639
U.S. Government Agencies	4,887,141
Total	<u>\$ 9,725,780</u>

Credit Risk. The credit risk ratings of the fixed income investments at June 30, 2010 were as follows:

	Treasury	Agencies	AAA	Total
Fixed Income	\$ 47,639	4,250,141	5,428,000	\$ 9,725,780

Interest Rate Risk. At June 30, 2010, the effective duration and composition of the fixed income investments were as follows:

Investment Type	Fair Value	Effective Duration (Years)
U.S. Government Treasuries, Notes and Bonds	\$ 4,838,639	3.25
U.S. Government Agencies	4,887,141	3.58
Total	<u>\$ 9,725,780</u>	<u>3.42</u>

(3) Investment in Prize Annuities and Annuity Prizes Payable

Assets totaling \$10,744,274, which includes \$10,742,874 of investments and \$1,400 of restricted assets, are held by the Iowa Lottery Authority for the purpose of paying installment prizes which have already been won but will not be fully paid until 2018. Annuity liabilities to fund jackpot winners are valued at an amount equal to the carrying values of the respective assets held to fund the annuity obligations. Annuity prizes payable do not include an additional liability of \$1,400 to taxing authorities which is classified as due to other state agencies. The following is a schedule of future payments:

Year Ending June 30,	Current	Long-term	Total Payments
2011	\$ 2,167,000	-	2,167,000
2012	-	1,488,000	1,488,000
2013	-	1,488,000	1,488,000
2014	-	1,490,000	1,490,000
2015	-	1,486,000	1,486,000
2016-2018	-	3,282,000	3,282,000
Total future value	2,167,000	9,234,000	11,401,000
Less: unamortized discount	(70,815)	(587,311)	(658,126)
Present value of payments	<u>\$ 2,096,185</u>	<u>8,646,689</u>	<u>10,742,874</u>

(4) Accounts Receivable

The components of accounts receivable at June 30, 2010 are as follows:

Due from agents	\$ 4,527,750
Due from others	40,958
Subtotal	<u>4,568,708</u>
Less allowance for doubtful accounts	<u>(865,574)</u>
Accounts receivable, net	<u><u>\$ 3,703,134</u></u>

Bad debt expense of \$15,325 was charged against instant-scratch ticket sales for the year ended June 30, 2010.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2010 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 392,110	-	-	392,110
Capital assets being depreciated:				
Buildings	1,986,487	-	-	1,986,487
Equipment	7,393,634	23,109	15,267	7,401,476
Vehicles	935,473	20,387	94,751	861,109
Total capital assets being depreciated	<u>10,315,594</u>	<u>43,496</u>	<u>110,018</u>	<u>10,249,072</u>
Less accumulated depreciation for:				
Buildings	208,546	51,659	-	260,205
Equipment	5,633,760	813,304	13,840	6,433,224
Vehicles	579,229	-	66,551	512,678
Total accumulated depreciation	<u>6,421,535</u>	<u>864,963</u>	<u>80,391</u>	<u>7,206,107</u>
Total capital assets being depreciated, net	<u>3,894,059</u>	<u>(821,467)</u>	<u>29,627</u>	<u>3,042,965</u>
Capital assets, net	<u><u>\$ 4,286,169</u></u>	<u><u>(821,467)</u></u>	<u><u>29,627</u></u>	<u><u>3,435,075</u></u>

(6) Revenue Bonds Payable

During fiscal year 2005, the Iowa Lottery Authority issued \$8,800,000 of revenue bonds with an interest rate of 3.284% per annum. The proceeds were used for the purchase, financing and installation of instant-scratch ticket and pull-tab vending machines and for the purchase and renovation of a building for the Iowa Lottery Authority's headquarters. The bonds mature over the next nine years. The remaining principal balance at June 30, 2010 was \$1,300,000.

The following is a schedule by year of the future payments required:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 100,000	42,692	142,692
2012	100,000	39,408	139,408
2013	100,000	36,124	136,124
2014	100,000	32,840	132,840
2015	100,000	29,556	129,556
2016-2019	800,000	65,680	865,680
Total	\$ 1,300,000	246,300	1,546,300

During the year ended June 30, 2010, \$100,000 of revenue bonds were retired.

(7) Lease Commitment

The Iowa Lottery Authority occupies office and warehouse facilities in Cedar Rapids, Mason City, Storm Lake, Council Bluffs and Ankeny under long-term operating leases which expire by June 30, 2016.

The following is a schedule, by year, of the future minimum rental payments required under operating leases which have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2010:

Year Ending June 30,	Amount
2011	\$ 149,073
2012	150,946
2013	152,819
2014	153,587
2015	143,402
2016	82,923
Total	\$ 832,750

Rental expense for all operating leases totaled \$201,932 for the year ended June 30, 2010.

(8) Pension and Retirement Benefits

The Iowa Lottery Authority contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.30% of their annual salary and the Iowa Lottery Authority is required to contribute 6.65% of annual covered payroll for the year ended June 30, 2010. Contribution requirements are established by state statute. The Iowa Lottery Authority's contributions to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$414,865, \$403,942 and \$390,212, respectively, equal to the required contributions for each year.

(9) Compensated Absences, Termination Benefits and Other Postemployment Benefits (OPEB)

Changes in compensated absences, termination benefits and other postemployment benefit obligations for the year ended June 30, 2010 are summarized as follows:

	Balance			Balance	Due Within
	June 30, 2009	Additions	Deletions	June 30, 2010	One Year
Compensated absences	\$ 1,505,078	504,821	737,069	1,272,830	637,118
Net OPEB liability	141,046	66,078	-	207,124	-
Termination benefits for retirees	93,813	1,506,386	49,685	1,550,514	342,989
Total	\$ 1,739,937	2,077,285	786,754	3,030,468	980,107

State Employees Retirement Incentive Program (SERIP). On February 10, 2010, the Governor signed into law a state employee retirement incentive program for eligible executive branch employees. To be eligible, an employee must have been employed on February 10, 2010, be age 55 or older on July 31, 2010 and have submitted an application by the employee's last day of employment to the Iowa Public Employees' Retirement System to begin monthly retirement benefits by July 2010. In addition, employees must have filed a SERIP application on or before April 15, 2010 and terminated employment no later than June 24, 2010.

Participants in the SERIP will receive the following incentives:

- 1) Unused sick leave – A cash payment of the monetary value of the participant's accrued sick leave balance, not to exceed \$2,000. The payment is calculated by multiplying the number of hours of accrued sick leave by the participant's regular hourly rate of pay at the time of retirement. This payment was made in fiscal year 2010 on the participant's last pay check.
- 2) Health insurance – A minimum of 5 years of state contributions toward the premiums of a state-sponsored health insurance plan, either through the Sick Leave Insurance Program (SLIP), SERIP or a combination of both programs.
- 3) Years of service incentive – Cash payments, including the entire value of the participant's accrued but unused vacation leave, and, for participants with at least 10 years of state employment, \$1,000 for each year of state employment, up to 25 years of employment. The total years of service incentive shall be paid in five equal installments beginning in September 2010 and ending in 2014.

In the event a SERIP participant dies within 5 years of termination of employment, the participant's beneficiary will receive any remaining years of service incentive payments. If the participant's surviving spouse is covered on the participant's state retiree health insurance plan, the surviving spouse may elect to continue health insurance coverage and will receive any remaining health insurance contribution benefits under the SERIP. If the surviving spouse was not covered by the participant's insurance plan, or if there is no surviving spouse, any remaining health insurance contribution benefits are forfeited.

Participants in the SERIP are not eligible to accept any further employment with the state, other than as an elected official or a member of a board or commission, from the date of termination of employment. Participants may not enter into contracts to provide services to the state as independent contractors or consultants.

The SERIP is financed on a pay-as-you-go basis and amounts due for the program have been reported in the financial statements as accounts payable and accruals. The

liability for the expected future health insurance benefits at June 30, 2010 is \$828,639. This was calculated by increasing the insurance premiums in effect at June 30, 2010 for the annual medical trend rates for fiscal years 2011 through 2015. The annual medical trend rates range from 6.39% in 2011 to 5.16% in 2015. The liability for the years of service incentive installment payments at June 30, 2010 is \$646,730.

Twenty employees retired under the SERIP program during the year ended June 30, 2010, with only 1 employee receiving benefits totaling \$885 during the fiscal year.

Sick Leave Insurance Program (SLIP). The Sick Leave Insurance Program is a voluntary termination benefit program. The program is an opportunity for employees who are retirement-eligible to use the value of their unused sick leave to pay the employer share of the monthly premium of the State's group health insurance plan after retirement. A SLIP liability is reported for both current, active Lottery employees and retirees. The SLIP liability for current, active employees is included in compensated absences and the liability for retirees is included in accounts payable and accruals.

Upon retirement, employees shall first receive a cash payment for accumulated, unused sick leave converted at the employee's current regular hourly rate of pay, up to \$2,000, payable with the final payroll warrant which includes the employee's retirement date. The value of the remaining balance of the accrued sick leave will be converted based upon the original balance (before the cash payment). The remainder of the sick leave value is calculated as follows, based on the number of sick leave hours the employee had before the cash payment:

<u>If the sick leave balance is:</u>	<u>The conversion rate is:</u>
Zero to 750 hours	60% of the value
Over 750 hours to 1,500 hours	80% of the value
Over 1,500 hours	100% of the value

The final calculated dollar value will be credited to the employee's SLIP account. Each month, the Iowa Lottery Authority will pay 100 percent of the employer's share of the selected state group health insurance premium from the retiree's SLIP account. The retiree is responsible for any additional premiums associated with the employee/retiree share.

The Iowa Lottery Authority will continue to pay the employer's share of the health insurance premium each month until the converted value of the employee's sick leave balance is exhausted, until the employee is eligible for Medicare, the employee waives the benefit or the employee dies, whichever comes first. The retired employees may stay with the same health insurance program as when employed or switch down at any time without underwriting. The converted value of the sick leave can only be applied to the employer's share of health insurance premium payments. It has no cash value and is not transferable to another use or to an heir. If a retired employee who has utilized this benefit returns to permanent state employment, all remaining balances in the sick leave insurance program will be forfeited.

All SLIP program benefits are financed on a pay-as-you-go basis. For the year ended June 30, 2010, 6 employees have retired and received benefits of \$48,800 under the SLIP program.

Other Postemployment Benefits. The Iowa Lottery Authority implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, during the year ended June 30, 2008. This Statement establishes when other postemployment benefit liabilities are recorded under the accrual basis of accounting.

As a part of the State of Iowa, the Iowa Lottery Authority participates in the State of Iowa postretirement medical plan (OPEB). The OPEB Plan recognizes the implicit rate subsidy as required by GASB Statement No. 45.

The annual valuation of liabilities under the OPEB Plan is calculated using the entry age normal cost method. This method requires the calculation of an unfunded actuarial accrued liability, which was approximately \$293,500,000 for the State of Iowa as of June 30, 2010. The Iowa Lottery Authority's portion of the unfunded actuarial accrued liability is not separately determinable.

Details of the OPEB Plan are provided on a state-wide basis and are available in the State of Iowa's Comprehensive Annual Financial Report for the year ended June 30, 2010. The report may be obtained by writing to the Iowa Department of Administrative Services, Hoover State Office Building, Des Moines, Iowa 50319.

The Iowa Lottery Authority recognized a net OPEB liability of \$207,124 for other postemployment benefits, which represents the Iowa Lottery Authority's portion of the State's net OPEB obligation. The Iowa Lottery Authority's portion of the net OPEB obligation was calculated using the ratio of full time equivalent employees of the Iowa Lottery Authority compared to full time equivalent employees of the State of Iowa.

(10) Payment of Prizes

Instant-scratch ticket prize expense is comprised of actual winning tickets validated for payment by any retailer or by the Iowa Lottery Authority.

The Powerball prize expense is comprised of two different prize structures. One prize structure is winners who match 3, 4 or 5 of 5 numbers or none, 1, 2, 3 or 4 of 5 numbers plus the Powerball number. The second prize structure involves a jackpot which increases from drawing to drawing until the jackpot is won. The jackpot is won when 5 of 5 numbers are matched, plus the Powerball number.

The Mega Millions prize expense is comprised of two different prize structures. One prize structure is winners who match 3, 4 or 5 of 5 numbers or none, 1, 2, 3 or 4 of 5 numbers plus the Megaball number. The second prize structure involves a jackpot which increases from drawing to drawing until the jackpot is won. The jackpot is won when 5 of 5 numbers and the Megaball number are matched.

Pull-tab prize expense is comprised of actual winning tickets, up to and including \$600, included in packs delivered to retailers and actual winning tickets over \$600 paid by the Lottery.

The \$100,000 Cash Game prize expense is comprised of winners who match 2, 3, 4 or 5 of 5 numbers.

Raffle prize expense is comprised of winners who match the raffle numbers selected in the drawing.

The Hot Lotto prize expense is comprised of two different prize structures. One prize structure is winners who match 3, 4 or 5 of 5 numbers or none, 1, 2, 3 or 4 of 5 numbers plus the Hot Ball number. The second prize structure involves a jackpot which increases from drawing to drawing until the jackpot is won. The jackpot is won when 5 of 5 numbers and the Hot Ball number are matched.

The Pick 3 prize expense is comprised of winners who match either 2 or 3 of 3 numbers. A player may win from \$30 to \$3,000 depending on the play type selected and the play amount. Play types are Straight, Box, Straight/Box, Front Pair or Back Pair and require the player to match all numbers in the exact order drawn, match all three numbers in any order, match either exact and/or any order, first two numbers or last two numbers in exact order, respectively.

The Pick 4 prize expense is comprised of winners who match either 2 or 4 of 4 numbers. A player may win from \$30 to \$30,000 depending on the play type selected and the play amount. Play types are Straight, Box, Straight/Box, Front Pair or Back Pair and require the player to match all numbers in the exact order drawn, match all four numbers in any order, match either exact and/or any order, first two numbers or last two numbers in exact order, respectively.

During the year ended June 30, 2010, \$322,417 in prizes were distributed through various promotional activities.

(11) Lotto America/Powerball

U.S. Treasury zero coupon bonds are purchased by the Multi-State Lottery Association (MUSL) to provide payments corresponding to the Iowa Lottery Authority's obligation to Lotto America/Powerball prize winners. The MUSL holds these bonds and will cash the bonds when due and wire the money to the Iowa Lottery Authority's account on or before the anniversary date of the jackpot.

At June 30, 2010, the MUSL held zero coupon bonds for the Iowa Lottery Authority to fund future installment payments aggregating \$2,238,781. The current value of those bonds totaled \$2,292,458.

(12) Instant-Scratch Ticket Packs

The Iowa Lottery Authority issues instant-scratch ticket packs to retailers on an ongoing basis. The District Sales Representative must activate the pack on the system before the pack may be sold to the public. The retailer may not be billed for these packs until a pack is activated and settled on the system. A pack may be settled in one of four ways: 1) 70% of the low-tier tickets in the pack have been validated, 2) 45 days have elapsed from the date the pack was activated, 3) the pack has been settled at delivery or settled manually through the terminal or 4) 21 days have elapsed from the date the pack was activated regardless of validations. As of June 30, 2010, the Iowa Lottery Authority had 31,814 packs at retailers which have not yet settled. The receivable and the related deferred revenue of \$4,490,005, calculated as shown below, have not been included in the Iowa Lottery Authority's financial statements since the sales associated with these packs have not been recognized.

Unsettled packs	\$ 9,544,200
Less:	
Retailer compensation	652,560
Low-tier prize expense	<u>4,401,635</u>
Potential receivable and deferred amount	<u>\$ 4,490,005</u>

(13) Risk Management

State employee benefits for health, dental, long-term disability and life insurance coverage are insured through commercial insurers. There were no significant reductions in insurance coverage from the prior year and settlements have not exceeded coverage for the past three fiscal years.

The State of Iowa self-insures on behalf of its agencies for losses related to workers' compensation, its motor vehicle fleet, property damage and torts. A contingent fund exists under Section 29C.20 of the Code of Iowa to provide compensation for loss or damage to state property (casualty losses).

Upon advice of legal counsel, the Iowa Lottery Authority has purchased commercial insurance for certain risks.

Supplementary Information

Iowa Lottery Authority

Other Operating Expenses

Year ended June 30, 2010

Salary and benefits	\$ 9,819,750
Travel	369,153
Supplies	104,863
Printing	14,477
Postage	6,166
Communications	117,364
Rentals	285,660
Utilities	98,468
Professional fees	165,833
Advertising	3,969
Outside services and repair	382,369
Non-capitalized equipment	65,094
Data processing	37,700
Reimbursement to state agencies	455,697
Multi-State administrative expense	17,818
Depreciation	864,963
Other	104,242
Total	<u>\$ 12,913,586</u>

See accompanying independent auditor's report.

Schedule 2

Iowa Lottery Authority
Revenues, Expenses and Changes in Net Assets
Years ended June 30, 2010 and 2009

	2010	2009	Increase (Decrease)
Operating revenues:			
Instant-scratch ticket sales	\$ 143,759,258	136,268,555	7,490,703
Pick 3 sales	6,531,001	6,534,765	(3,764)
Pick 4 sales	2,662,191	2,555,237	106,954
Powerball sales	59,190,012	58,220,203	969,809
Mega Millions sales	5,544,128	-	5,544,128
Hot Lotto sales	13,653,746	14,329,610	(675,864)
Raffle sales	789,200	-	789,200
\$100,000 Cash Game sales	3,908,785	4,113,307	(204,522)
Pull-tab sales	20,217,316	21,315,424	(1,098,108)
Application fees	3,975	3,680	295
Other	22,147	65,449	(43,302)
Total operating revenues	256,281,759	243,406,230	12,875,529
Operating expenses:			
Prizes:			
Scratch ticket	91,479,848	81,846,620	9,633,228
Pick 3	3,958,003	3,834,735	123,268
Pick 4	1,544,018	1,473,587	70,431
Powerball	28,558,287	28,118,140	440,147
Mega Millions	2,879,811	-	2,879,811
Hot Lotto	6,610,476	7,015,713	(405,237)
Raffle	392,876	-	392,876
\$100,000 Cash Game	2,005,333	2,271,476	(266,143)
Pull-tab	12,702,718	13,389,649	(686,931)
Promotional	322,417	475,421	(153,004)
Total prizes	150,453,787	138,425,341	12,028,446
Retailer compensation	16,109,748	15,298,982	810,766
Advertising production and media purchases	7,535,084	6,995,166	539,918
Retailer lottery system/terminal communications	8,612,934	8,248,110	364,824
Instant/pull-tab ticket expense and machine maintenance	3,192,775	3,194,530	(1,755)
Terminal equipment/ticket dispensers	87,738	81,250	6,488
Other operating expenses	12,913,586	12,235,787	677,799
Total operating expenses	198,905,652	184,479,166	14,426,486
Operating income	57,376,107	58,927,064	(1,550,957)
Non-operating revenues (expenses):			
Interest income	364,957	421,090	(56,133)
Interest expense	(45,702)	(48,986)	3,284
Net non-operating revenues	319,255	372,104	(52,849)
Income before transfers	57,695,362	59,299,168	(1,603,806)
Transfers to other funds	57,907,066	60,553,306	(2,646,240)
Changes in net assets	(211,704)	(1,254,138)	1,042,434
Net assets beginning of year	4,413,643	5,667,781	(1,254,138)
Net assets end of year	\$ 4,201,939	4,413,643	(211,704)

See accompanying independent auditor's report.

Iowa Lottery Authority

Analysis of Net Assets

June 30, 2010

Cash retained for vehicle purchases	\$ 472,792
Ticket inventories	1,594,072
Capital assets, net of related debt	<u>2,135,075</u>
Total	<u>\$ 4,201,939</u>

See accompanying independent auditor's report.

Schedule 4

Iowa Lottery Authority

Revenue by Game -
For the Last Six Years

Games	Year ended June 30,					
	2005	2006	2007	2008	2009	2010
Instant-scratch ticket	\$ 103,259,272	106,562,536	125,147,976	137,917,848	136,268,555	143,759,258
Pick 3	6,200,109	6,056,037	6,282,529	6,373,362	6,534,765	6,531,001
Pick 4	2,042,499	2,066,769	2,224,092	2,315,469	2,555,237	2,662,191
Powerball	54,244,379	71,110,985	61,548,520	63,761,024	58,220,203	59,190,012
Mega Millions	-	-	-	-	-	5,544,128
Hot Lotto	10,443,903	9,634,818	14,453,908	11,724,416	14,329,610	13,653,746
Raffle	-	-	-	1,425,460	-	789,200
\$100,000 Cash Game	4,426,833	4,323,511	4,362,916	4,291,933	4,113,307	3,908,785
Pull-tab	23,624,094	18,314,338	21,058,969	21,407,956	21,315,424	20,217,316
TouchPlay (net)	6,428,123	121,450,529	-	-	-	-
Total	\$ 210,669,212	339,519,523	235,078,910	249,217,468	243,337,101	256,255,637

See accompanying independent auditor's report.

Iowa Lottery Authority
 Analysis of Prize Payout
 Lotto, Instant-Scratch and Pull-tab Games
 For the Last Six Years

Games	Year ended June 30,					
	2005	2006	2007	2008	2009	2010
Instant-scratch ticket	59%	61%	61%	62%	60%	64%
Pick 3	58%	58%	59%	59%	59%	61%
Pick 4	58%	50%	54%	58%	58%	58%
Powerball	48%	49%	48%	48%	48%	48%
Mega Millions	-	-	-	-	-	52%
Hot Lotto	49%	49%	49%	48%	49%	48%
Raffle	-	-	-	84%	-	50%
\$100,000 Cash Game	43%	47%	51%	59%	55%	51%
Pull-tab	62%	62%	62%	63%	63%	63%

See accompanying independent auditor's report.

Iowa Lottery



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board Members of the
Iowa Lottery Authority:

We have audited the financial statements of the Iowa Lottery Authority, a component unit of the State of Iowa, as of and for the year ended June 30, 2010, and have issued our report thereon dated December 21, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Iowa Lottery Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Iowa Lottery Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Iowa Lottery Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Iowa Lottery Authority's financial statements will not be prevented or detected and corrected on a timely basis.

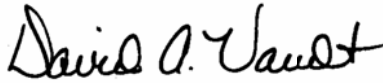
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting we consider to be material weaknesses, as defined above.

Compliance and Other Matters

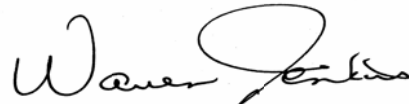
As part of obtaining reasonable assurance about whether the Iowa Lottery Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

This report, a public record by law, is intended solely for the information and use of the Board Members, other officials and employees of the Iowa Lottery Authority, citizens of the State of Iowa and other parties to whom the Iowa Lottery Authority may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Iowa Lottery Authority during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 21, 2010

Iowa Lottery Authority

Staff

This audit was performed by:

Deborah J. Moser, CPA, Manager
Steven O. Fuqua, CPA, Senior Auditor II
Daniel L. Durbin, CPA, Staff Auditor
Jessica N. Meierotto, Staff Auditor
Gelu Sherpa, CPA, Staff Auditor
Brett M. Zeller, Staff Auditor
Ainslee M. Barnes, Assistant Auditor
Daniel W. Henaman, Assistant Auditor
Reza Sepehri, Assistant Auditor
Lara Van Wyk, Assistant Auditor
Nicole R. Williams, Assistant Auditor
Staci L. Bauerly, Auditor Intern

A handwritten signature in black ink, reading "Andrew E. Nielsen". The signature is fluid and cursive, with the first name "Andrew" and last name "Nielsen" clearly legible.

Andrew E. Nielsen, CPA
Deputy Auditor of State